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news release

COMMITTEE ON AGRICULTURE

(NR93-079)

U.S. HOUSE OF REPRESENTATIVES

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COMMITTEE APPROVES MAJOR REA REFORM PACKAGE, NATIONAL FOREST FOUNDATION AMENDMENTS

For immediate release, Friday, Sept. 24, 1993

WASHINGTON -- The House Agriculture Committee approved legislation Thursday to require a major restructuring of the loan programs of the Rural Electrification Administration (REA) to reduce taxpayer cost, target assistance and promote the delivery of modern telecommunications services to rural areas.

"Our nation's budget problems dictate that we find ways to reduce the cost of the REA lending programs and better target taxpayer-funded assistance. This legislation eliminates the current 2 percent loan program and requires a major restructuring of the REA lending activities to meet these goals," said Committee Chairman Kika de la Garza, D-Texas.

"REA has been the Federal government's most successful effort at improving the quality of life in rural America, bringing affordable electric and telephone service to farms, ranches and rural communities across our nation. Today, rural areas are seeking access to emerging electronic technologies and the economic opportunities they provide. This legislation positions REA to help rural electric and telephone borrowers meet this challenge in a cost-effective manner for taxpayers and rural residents," said Rep. de la Garza.

H.R. 3123, the Rural Electrification Loan Restructuring Act of 1993, was amended and approved by voice vote. It is nearly identical to language agreed to by the conferees on the 1993 budget reconciliation bill. The REA provisions were stripped from the final bill because of possible procedural problems they might have posed in the Senate.

**Summary of H.R. 3123:
Rural Electrification Loan Restructuring Act of 1993**

Restructuring of REA electric loan program

The bill eliminates the current 2% loan program, and restructures REA's electric lending activities to lower the cost of the program and better target its assistance:

Hardship loans: This tier provides government-insured hardship loans at an interest rate of 5% annually. To be eligible for a hardship loan, the borrower's service area must be characterized by above-average operational costs and below-average household income, or for a borrower serving certain isolated rural communities. The authorized spending level for the hardship loan tier, currently at \$625 million, is lowered to \$125 million for fiscal 1994 and adjusted for inflation through 1998.

Municipal rate loans: This new tier establishes a government-insured loan program for borrowers with an interest rate equal to the interest rates paid by municipal-owned utilities. The interest rate is capped at 7% for borrowers serving areas characterized by low-subscriber density, above-average operational costs, and below-average household income. The interest rate cap would not apply to borrowers serving higher-density areas. Loan terms can be up to 35 years. The authorized spending level for the municipal rate loan is set at \$600 million for fiscal 1994 and adjusted for inflation through 1998.

Restructuring of REA's telephone loan program

The bill eliminates the current 2% loan program, and restructures REA's telephone lending activities to lower the cost of the program and better target its assistance:

Hardship loans: This tier provides a government-insured loan program for borrowers at an interest rate of 5% annually. To be eligible for a hardship loan, the borrower must serve a low-user density area, demonstrate the ability to repay, and participate in an REA-approved state telecommunications modernization plan. The authorized spending level for the hardship loan tier, currently at \$239 million, is lowered to \$125 million for fiscal 1994 and adjusted for inflation through 1998.

Cost-of-money loans: This new tier establishes a government-insured loan program for borrowers with an interest rate tied to the cost-of-money to the Federal government. The interest rate is capped at 7% for a borrower that:

serve a low-user density area, can demonstrate the ability to repay, and where REA has approved a telecommunications modernization plan for the State. The authorized spending level for the new municipal rate loan is set at \$198 million for fiscal 1994 and adjusted for inflation through 1998.

Modernization of telecommunications services for rural areas

The bill requires that a state telecommunications modernization plan be developed by each State in order for borrowers to be eligible for telephone loans. The REA Administrator, within 1 year after final regulations are issued, must approve a modernization plan meeting certain Federal criteria whether the plan was created by a State's public utility commission or by a majority of telephone borrowers in a State.

The minimum Federal requirements established in the bill for a state telecommunications modernization plan include: elimination of telephone party lines, improved services for business, educational and medical institutions, and improvements that increase the availability of computer networks and information highways to serve rural areas.

Rural Telephone Bank (RTB) loan program changes

The bill targets lending activities of RTB (a supplemental source of financing for rural telephone systems) to borrowers that: (1) have a service area with 15 or less subscribers per line mile, (2) can demonstrate ability to repay, and (3) are participating in a REA-approved state telecommunications modernization plan. The bill also allows prepayment of RTB loans at face value and makes various other technical changes.

Miscellaneous provisions

Clarifies that the REA electric loan program may be used to furnish and improve electric service, including assistance to borrowers for demand side management programs.

Allows REA to use the services of outside consultants, funded at the borrower's expense, to review loan applications to facilitate timely action.

Makes the definition of "rural area" in the REAct consistent with the definition used by the Bureau of the Census.

Makes USDA/Rural Development Administration programs available to REA borrowers, including eligibility for water and waste disposal facility loans.

H.R. 3085, National Forest Foundation Amendments

In other action Thursday, the House Agriculture Committee approved by voice vote H.R. 3085, the National Forest Foundation Amendments of 1993. This bill extends the authorization for startup and administrative funding for the National Forest Foundation for 1 year. The bill also allows funds to be used by the Foundation to implement projects.

The National Forest Foundation is a charitable, nonprofit corporation, authorized by Congress in 1990 to support the goals of the Forest Service through educational programs, such as camps for youth-at-risk to participate in tree planting and other conservation activities.

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